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B R I E F I N G S

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East-West Trade

EAST-WEST TRADE

I think that you all know that for some time the President has been engaged in a policy of building bridges to Eastern Europe. In connection with this policy, we have provided substantial intelligence support to policy officials and to the President's East-West Trade Committee, ranging all the way from very detailed intelligence on trade controls to broad analyses of the consequences of relaxing these restrictions.

Our analysis of East-West trade with European Communist countries shows the trade growing at an average rate of 12 percent a year since 1958. However, the total of this trade -- about $8.5 billion a year -- is not large in terms of world trade (actually its only about 2 percent of world trade).

This first chart shows a steady upward trend in Soviet foreign trade with the Western countries, but you will notice that trade with the Communist World continues to predominate, holding close to two-thirds of total trade. Only about 20 percent, or about $3 billion in 1966, was with the Industrial West and about 10 percent was with the less developed countries. In no case, except for Finland and Austria, does this represent as much as 3 percent of the total trade of any Western country. Soviet trade with the US is less than $100 million a year. The very small quantitative significance

of this trade to the USSR can be seen if we compare total trade with the Industrial West to the Soviet's total Gross National Product of roughly $300 billion. We calculate that imports from the West to be less than 1 percent of both Soviet GNP and Soviet industrial production. As you can see, the pattern for Eastern European countries is very similar, though for this area imports from the West are about 2 percent of GNP and 5-6 percent of industrial production.

Despite the fact that the Western powers have had a program of trade controls directed against the Soviet Union and Eastern Europe since 1948, we have not prevented the Soviet Union from building an impressive modern military establishment, nor have we prevented a rapid rate of economic growth. It is true, however, that the denial of certain advanced Western technology has exerted a marginal impact on the costs and effectiveness of Soviet military programs and the quality of modern industrial sector in the USSR and Eastern Europe. On the other hand, the equipment and know-how not covered by controls that have been available to the Communist countries have helped them to achieve savings in research and development particularly in certain advanced industrial sectors such as synthetic fibers and plastics.

Actually the scope of Western trade with the European Communist countries has been impeded less by COCOM restrictions than by the limited ability of the Communist countries to export and earn

foreign exchange. Both the Soviet Union and Eastern Europe have a pretty narrow range of available exports and we see very little promise of major improvements in this position. This limited ability to export, plus the recent Soviet need to import grain, has, as you know, forced the Soviets to sell substantial amounts of gold, and to seek medium-term and long-term credits from the West.

This next chart shows the problem the Soviets face in their hard currency balance of payments and how gold and medium-term credits have been used to balance the books. In recent years, however, new credits have been practically equalled by repayments on past credits, thereby forcing the Soviets to rely almost exclusively on sales of gold and expanded exports to obtain the imports they need for industrial modernization.

For Eastern Europe, the situation varies a great deal from country to country. The overall picture, however, is pretty much the same except that Eastern European countries, generally speaking, have no gold reserves to fall back on.

The President's interest in bridge building has raised the question of what would happen to Soviet and Eastern European trade with the US if US restrictions were relaxed. While no precise estimate can be made, our calculations do demonstrate that the trade would remain small by almost any measure, principally because the Soviets would not be able to earn substantial additional amounts of foreign exchange. This view is generally accepted in State and

Commerce, and also was accepted by the President's committee of private citizens which worked on this question, the so-called Miller Committee.